

Message Text

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PAGE 01 LONDON 02915 01 OF 03 121922 Z

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ACTION EUR-25

INFO OCT-01 ADP-00 EURE-00 INRE-00 CIAE-00 DODE-00 PM-09

H-02 INR-09 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01

SS-14 USIA-12 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01

OEP-01 INT-08 RSR-01 /163 W
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P R 121759 Z MAR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9603

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY OSLO

AMEMBASSY PARIS

AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

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E. O. 11652: N/A

TAGS: ENRG, UK

SUBJECT: NORTH SEA OIL: LICENSING AND TAX ARRANGEMENTS

REFS: (A) LONDON 2707 (B) LONDON 2803

1. SUMMARY - ALTHOUGH COMMONS' COMMITTEE REFERRED TO "INTERNATIONALS" AND CHANCELLOR TO "MANY COMPANIES" WE UNDERSTAND TAX LOOPHOLES THAT COMMITTEE REPORTED WOULD NEGATE COMPANIES' TAX PAYMENTS ON NORTH SEA OIL AND THAT CHANCELLOR PROMISED TO PLUG APPLY ALMOST ENTIRELY TO BRITISH COMPANIES. CHANCELLOR'S PROMISED ACTIONS TO INTRODUCE ADMINISTERED
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PAGE 02 LONDON 02915 01 OF 03 121922 Z

PRICE FOR COMPANIES' TRANSFER OF FOREIGN CRUDE TO UK AFFILIATES IN PLACE OF POSTED PRICE, AND TO RESTRICT USE OF ACCUMULATED TAX LOSSES SO THEY DO NOT APPLY AGAINST NORTH SEA PROFITS ARE NOT EXPECTED SIGNIFICANTLY TO AFFECT US INTERNATIONALS. THESE COMPANIES ARE CONCERNED AT PUBLICITY, HOWEVER, AND FEAR CHANCELLOR MIGHT EVENTUALLY BROADEN HIS TAX REVISIONS IN KEEPING BUDGET MESSAGE ASSURANCE THAT GOVERNMENT HAS UNDER CONSIDERATION ALL ASPECTS OF GOVERNMENT D WIDE PARTICIPATION IN SYMPOSIA AND PROGRESS REVIEWS.

3. COMMITTEE EXPRESSED INTEREST IN PARTICIPATING IN PERIODIC USG/INDUSTRY REVIEWS OF PROGRESS AT ANN ARBOR, MICHIGAN. SUGGESTED STRESSING OF OFFICIAL NATURE OF REVIEW THROUGH INVITATION BASED ON BILATERAL MEMORANDUM OF UNDERSTANDING. REQUESTED AGENDA TWO MONTHS IN ADVANCE AS WELL AS NAMES OF EXPECTED PARTICIPANTS. COMMITTEE WISHES RECEIVE EPA REPORTS FROM INDUSTRIAL CONTRACTORS AND THE USG REPRESENTATIVES PROMISED 12 COPIES.

4. AT SEVERAL POINTS DR SPAANDER STRESSED DUTCH INTEREST IN DEVELOPMENT AND USE OF STIRLING ENGINE, AS MEETING GROWING NEEDS FOR ECONOMICAL USE OF ENERGY AND LOW PRODUCTION OF POLLUTION AND NOISE. STIRLING ENGINE MEETS NETHERLANDS PUBLIC TRANSPORTATION PROBLEM BETTER THAN AVIATION, SUBWAY OR MONORAIL. GON CONSIDERING POSSIBLE FINANCING OF PROTOTYPE BUSES FOR URBAN TESTING, LOOKING TO RECOVERY OF INVESTMENT THROUGH ROYALTIES IF PRODUCTION RESULTS.

5. SPAANDER MADE POINT THAT PRACTICAL DEVELOPMENT DEMANDS USE OF PRESENT FUEL SUPPLY SYSTEM SINCE SUBSTITUTION OF EXISTING FUEL SYSTEM WOULD ADD MANY YEARS TO DEVELOPMENT TIME FOR NEW MEANS OF TRANSPORT. IN VIEW OF THIS NEED, AS WELL AS POLLUTION, MOISE AND ENERGY USE, COMMITTEE RECOMMENDED THAT SUBJECT OF NEXT SYMPOSIUM BE "CRITERIA FOR SYSTEM SELECTION".
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PAGE 01 LONDON 02915 02 OF 03 121921 Z

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ACTION EUR-25

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OEP-01 INT-08 RSR-01 /163 W

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P R 121759 Z MAR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9604

INFO AMEMBASSY BONN

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PREFERRING FOR REASONS OF US TAX LAW TO HAVE " GROUP
RESIDENCE IN US.

6. AS RESIDENT GROUPS, SHELL AND BP CAN OFFSET CURRENT AND ACCUMULATED TAX LOSSES INCURRED BY MEMBER OF GROUP AGAINST CURRENT AND FUTURE PROFITS OF OTHER MEMBERS (PROVIDED LOSSES AND PROFITS CONSOLIDATED IN UK). THEY HAVE THEREFORE HAD COMPELLING INCENTIVE TO MAXIMIZE TAX LOSSES, AND NOT JUST FOR NORTH SEA REASONS, AND ARE BELIEVED TO HAVE MADE USE OF POSTED PRICE TRANSFERS FOR THE PURPOSES. BY USING SAY, \$3.00 POSTED PRICE TO TRANSFER TO TRADING AFFILIATE (USUALLY MIDDLE-MAN IN OPERATION) CRUDE THAT TRADING AFFILIATE LATER SELLS TO MARKETING AFFILIATE SAY AT \$2.00 MARKET PRICE,
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PAGE 02 LONDON 02915 02 OF 03 121921 Z

TAX LOSS IS INEVITABLE. TAXES WHICH PRODUCING AFFILIATE WOULD OTHERWISE OWE TO BRITISH TREASURY ON ITS PROFITS, SAY DIFFERENCE BETWEEN \$0.50 COST OF CRUDE AND \$3.00 TRANSFER PRICE, ARE EXTINGUISHED BY TAXES PAID TO PRODUCING GOVERNMENT AND SO TOTAL AMOUNT OF TRADING TAX LOSSES BECOMES AVANT FULL DISCLOSURE AND DISCUSSION OF EXPECTED NORTH
SEA PROFITS AND TAXES.

ANNENBERG

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PAGE 01 LONDON 02915 03 OF 03 121921 Z

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XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01

OEP-01 INT-08 RSR-01 /163 W

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P R 121759 Z MAR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9605

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AND " COMPANIES" TOGETHER AND ARE CONCERNED
AT COLLECTIVE IMAGE OF TAX " FIDDLING" THAT HAS RESULTED.
THEY ARE ALSO CONCERNED THAT CHANCELLOR MIGHT EVENTU-
ALLY EMBARK ON BROADER TAX CHANGES IN SUPPORT OF HIS
BUDGET ASSURANCE THAT GOVERNMENT HAS UNDER CONSIDER-
ATION OTHER QUESTIONS OF GOVERNMENT " TAKE" TO WHICH
PAC DREW ATTENTION.

10. COMMENT: WE SUPPOSE COMPANY CONFIDENTIALITY IS
RATIONALE FOR GROUPING ALL INTERNATIONALS. HOWEVER
CHANCELLOR AND PAC MAY ALSO HAVE WELCOMED OPPORTUNITY
OBSCURE FACT THAT TARGETS PAC UNCOVERED PRIMARILY BP

AND SHELL. WE ALSO SUPPOSE CHANCELLOR'S PROMPT RESPONSE TO PAC REPORT WAS INTENDED TO SHUT OFF LIMITED OFFICIAL USE

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PAGE 02 LONDON 02915 03 OF 03 121921 Z

POTENTIALLY EMBARRASSING DEBATE. HOWEVER WE DOUBT THAT DEBATE WILL END NOW THAT VEIL HAS BEEN PARTLY LIFTED. SUNDAY TIMES FOR MARCH 11 POINTED OUT THAT CAPITAL ALLOWANCES GENERATED BY NORTH SEA OPERATORS THEMSELVES WOULD EXTINGUISH MOST OF THEIR NORTH SEA TAX LIABILITIES FOR SEVERAL YEARS AND URGED ON GOVERNMENT STATEMENT OF APRIL 18, 1972, THAT THE PROVISIONS OF ARTICLE IX OF THE ABM TREATY DID NOT SET A PRECEDENT FOR A COMPARABLE PROVISION IN AN AGREEMENT LIMITING STRATEGIC OFFENSIVE ARMS. THE SOVIET SIDE, HOWEVER, SAID THEY LOOKED UPON THE QUESTION OF NON- TRANSFERAS BEING OF GREAT IMPORTANCE EVEN DURING THE PERIOD WHILE A MORE COMPLETE AGREEMENT WAS BEING WORKED OUT.

WE DO NOT INTEND TO RAISE THE NON- TRANSFER ISSUE. OUR POSITION IN RESPONSE TO THE SOVIET PROPOSAL WILL CONTINUE TO BE THAT THIS SUBJECT SHOULD BE ADDRESSED ONLY FOLLOWING DETERMINATION OF THE COMPOSITION OF THE STRATEGIC OFFENSIVE ARMS WHICH ARE TO BE INCLUDED IN THE PROSPECTIVE AGREEMENT AND NEGOTIATION OF THE PRINCIPAL MEASURES TO BE ADOPTED FOR THEIR LIMITATION.

SECOND, AS AMBASSADOR FARLEY REMARKED ON DECEMBER 15, THE SOVIET DELEGATION HAD INDICATED AN INTEREST IN DISCUSSING THE QUESTION OF MIRV LIMITATIONS. THEY RECALLED THAT THE MIRV QUESTION HAD BEEN LEFT FOR DISCUSSION AT FOLLOW- ON TALKS AND ASKED FOR US VIEWS. WE REPLIED THAT THE QUESTION OF QUALITATIVE LIMITATIONS (WHICH COULD INCLUDE MIRVS) WAS OPEN FOR DISCUSSION AT FUTURE SESSIONS. IN SEVERAL INFORMAL CONVERSATIONS DURING THE FINAL DAYS, THE SOVIETS AGAIN RAISED THE IDEA OF PLACING SOME LIMITATIONS ON MIRVS. WHILE THE SOVIETS DID NOT ADVANCE ANY CONCRETE PROPOSALS, THEY DID NOTE THREE POSSIBILITIES WITH RESPECT TO MIRV LIMITATIONS; A TOTAL BAN, NO RESTRICTIONS, OR SOME PARTIAL MEASURES. THEY INDICATED INTEREST IN DISCUSSING SOME PARTIAL DEPLOYMENT LIMITATIONS ON MIRVS.

AT THIS SESSION WE WILL WANT TO HEAR WHAT FURTHER VIEWS THE SOVIETS MAY HAVE ON THIS SUBJECT.

NEXT, AS FORECAST BY AMBASSADOR FARLEY, THE US DELEGATION ON DECEMBER 18 STRONGLY REBUTTED THE SOVIET POSITION ON CERTAIN NON-CENTRAL SYSTEMS (SOMETIMES CALLED FORWARD BASED SYSTEMS), AN ISSUE WHICH THE US HAS CONSISTENTLY VIEWED AS INVOLVING THE NON-CENTRAL SYSTEMS OF BOTH SIDES. THE REBUTTAL CONTAINED THE POINTS MENTIONED ORALLY BY AMBASSADOR FARLEY, AND INCLUDED A REAFFIRMATION OF OUR MAY 24/26 STATEMENTS ON ALLIED BALLISTIC MISSILE SUBMARINES. WE ARGUED THAT THE MAIN TASK OF SALT IS TO ADDRESS THE

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PAGE 03 SALT T 00083 01 OF 02 121956 Z

PROBLEM OF CENTRAL STRATEGIC SYSTEMS AND THAT TO SINGLE OUR
CERTAIN
NON- CENTRAL SYSTEMS, WHICH THE US HAS BASED FORWARD IN SUPPORT OF
ITS ALLIES AND ALLIANCE COMMITMENTS, IS CLEARLY UNEQUAL,
TO THE UNILATERAL ADVANTAGE OF THE SOVIET UNION, AND UNACCEPTABLE
TO THE US. DURING THE CURRENT SESSION OF SALT, THE US PLANS TO
CONTINUE TO REBUT THE SOVIET POSITION ON FORWARD- BASED NON- CENTRAL
SYSTEMS ALONG THESE SAME LINES.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 12 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON02915
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730324/aaaahkzi.tel
Line Count: 296
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 LONDON 2707, 73 LONDON 2803
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23-Jul-2001 by izenbei0>; APPROVED <21-Aug-2001 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 971118
Subject: NORTH SEA OIL: LICENSING AND TAX ARRANGEMENTS
TAGS: ENRG, UK
To: BELFAST
BONN
COPENHAGEN
EDINBURGH
EUR
OSLO
PARIS

SECSTATE WASHDC

THE HAGUE

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005